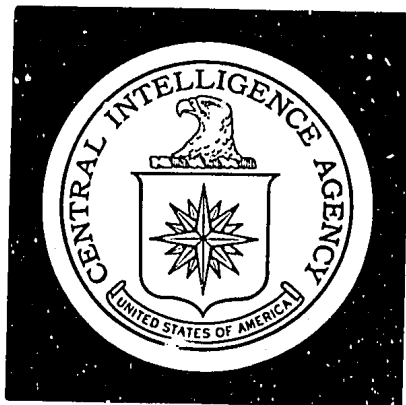


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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*Japan's Changing Textile Industry:  
Some Problems And Prospects*

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September 1971

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**CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
September 1971**

**INTELLIGENCE MEMORANDUM**

**JAPAN'S CHANGING TEXTILE INDUSTRY:  
SOME PROBLEMS AND PROSPECTS**

Introduction

1.

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This memorandum examines the Japanese textile industry's development over the past decade, describes its role in the US and other major foreign markets in recent years, and assesses the likely impact of the unilateral restraint program and other factors on the industry.

Discussion

The Textile Industry: Size and Scope

2. Japan's textile industry <sup>1/</sup> is among the world's largest. It ranks second only to the United States in man-made textile output and behind the United States, the USSR, India, and China in natural fiber products. In terms of the international textile trade, Japan leads by far. Japan exports

*1. For the purposes of this memorandum, the textile industry includes all phases of processing from synthetic fiber production to apparel production.*

*Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.*

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almost one-quarter of its production, a larger share than any other developed country, and is easily the world's leading exporter of textile manufactures and importer of textile raw materials, mainly wool and cotton.

3. As in other countries, the textile industry in Japan employs large numbers of persons. There are more than 1 million workers making up 13% of the manufacturing labor force, compared with 12% in the United States. The industry includes more than 100,000 firms, although most of these are small family-type operations. For example, roughly 10,000 concerns are involved in spinning, but only about 100 mills account for some 90% of output. The prevalence of small-scale operations is also characteristic of the apparel industry, where only about 500 of the 35,000 to 40,000 concerns employ more than 100 persons. But in the apparel sector, the few large firms account for only a small portion of output.

4. In spite of its size and recent growth, the relative importance of the textile industry has been steadily declining over the years. Textile production increased by more than 120% since 1960 (see Table 1), but the industry has not kept pace with the even more rapid growth registered in other Japanese industries such as iron and steel, chemicals, and machinery (see Figure 1). As a consequence, textile's share of total manufacturing output fell from 15% in 1960 to 9% in 1970.

5. The declining importance of the industry's export share is even more marked. In 1960, overseas sales of textile products accounted for about 28% of total export earnings, but by 1970 they made up only 12% of the total. In contrast to their leading position in Japanese exports during the early and mid-1960s, as Japan's major export commodity, textiles now rank well behind iron and steel and electronics. Textile exports nonetheless doubled over the past decade, and they still are a very important source of foreign exchange, earning \$2.3 billion last year.

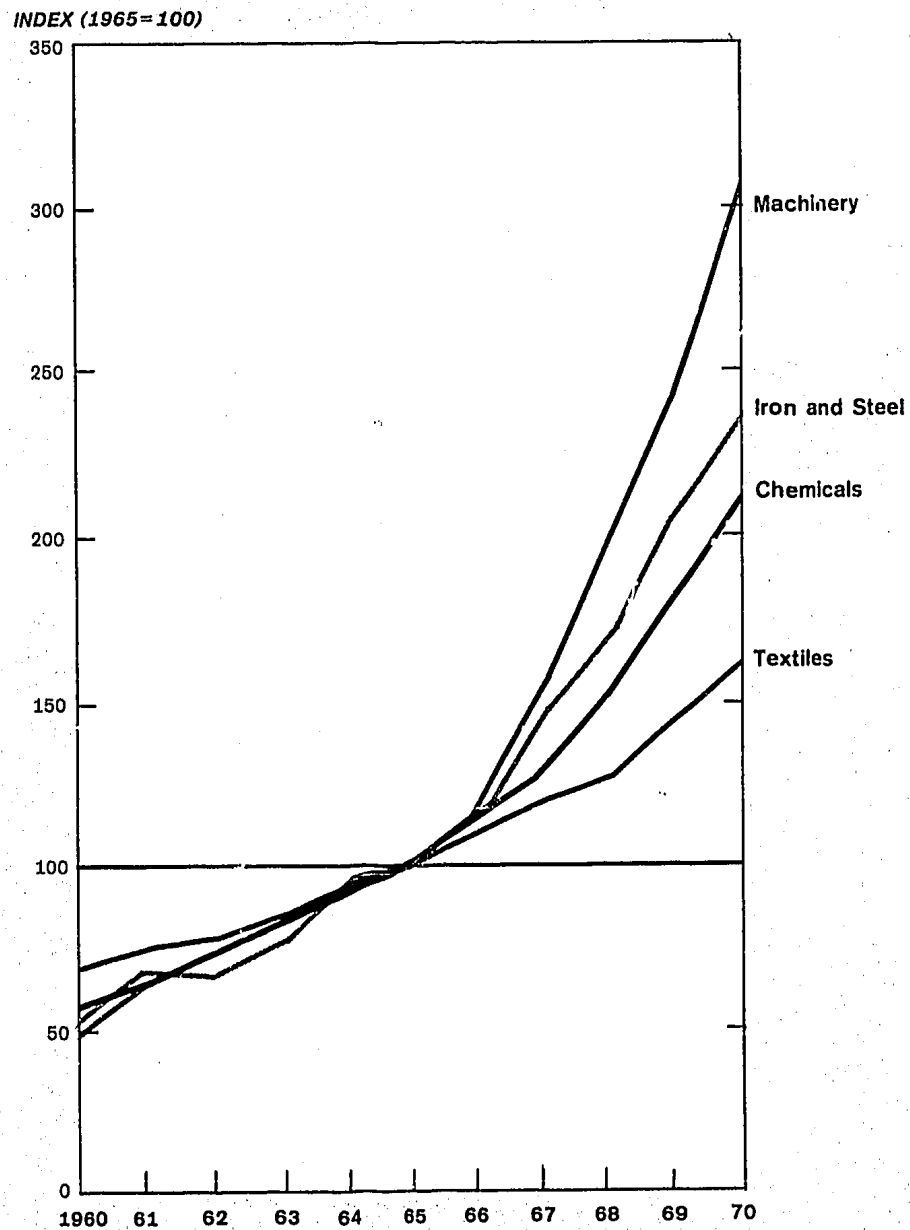
### Production Trends

6. The Japanese textile industry has changed dramatically over the past decade. It has shifted from a basically labor-intensive industry producing cotton fabrics to a more capital-intensive one producing synthetics. Synthetics accounted for practically all the growth in textile production over the past decade; rising five-fold between 1960 and 1970. By last year synthetics made up about 40% of the total volume of textile production <sup>2/</sup> compared with about 12% in 1960 (see Figure 2). For awhile, Tokyo helped to slow down the decline in importance of the cotton textile

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2. *Composition of textile production is in terms of tonnage of yarn base.*

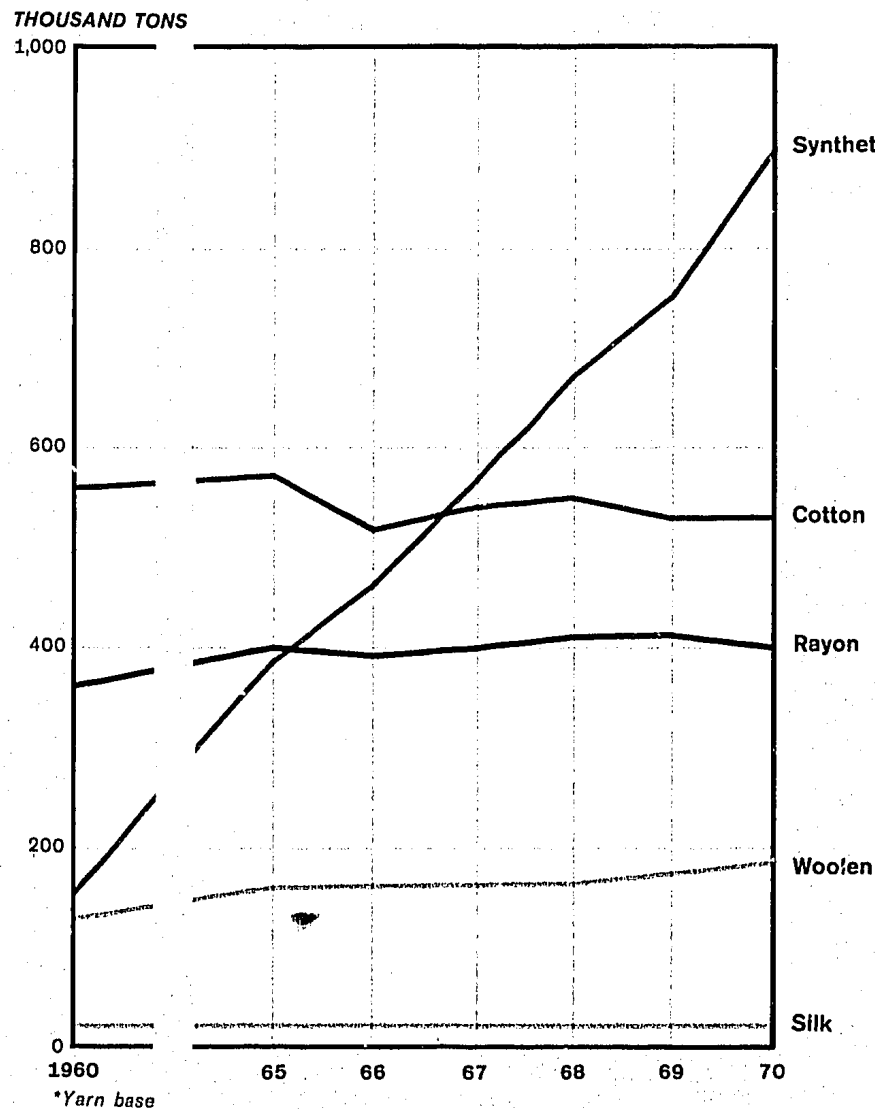
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**JAPAN: Indexes of Industrial Production** Figure 1

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**JAPAN: Textile Production by Fiber\***

Figure 2



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Table 1  
Japan: Production Index

	1960 = 100						
	<u>1960</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Total textiles	100	144.9	159.6	173.9	184.3	202.2	223.2
Chemical fibers	100	234.7	273.7	330.5	380.3	438.0	541.8
Spinning	100	120.5	124.5	131.8	141.0	145.3	153.5
Weaving	100	112.4	115.4	122.9	126.6	136.6	142.2

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industry by restricting expansion in the synthetic fibers, but controls were lifted in 1969 and plant capacity for the three major synthetics – polyesters, acrylics, and nylon – jumped by a whopping 51%, 35%, and 15%, respectively. Investment in synthetic fiber plants alone has exceeded \$1 billion since 1966, and substantial amounts have been spent to adapt the spinning and weaving sectors to synthetics.

7. In the early 1960s, the growth in synthetic output was based largely on satisfying the domestic market, but increasingly the industry has shifted to overseas markets to sustain rapid growth. By the end of the 1960s, 18% of the volume of synthetic fiber production was being sold abroad, compared with 2% in 1960. Synthetic fabric exports now take almost 50% of total production, compared with only 13% at the start of the 1960s. Although most of the increase in output in recent years has been for export, the domestic market is far from stagnating. Last year, domestic consumption of synthetic fabric rose by nearly 10%. The knitting industry, now based essentially on synthetics, also has done well, especially in foreign markets. In 1969, about 10% of knit cloth production, for example, was sold abroad, compared with only about 4% in 1965.

8. The inroads made by synthetics have come primarily at the expense of rayon and cotton, which now account for 20% and 26%, respectively, of total textile production. Output of rayon and cotton fabrics fell sharply over the past decade, primarily because of declining exports. Domestic demand for rayon has stagnated, and most of the increased demand for cotton textiles has been met through imports. Among the natural fiber products, only woollens registered an increase in output in recent years. Production of wool fabrics by volume increased by about one-fourth since 1965 despite a decline in overseas shipments of about 10%.

9. Japan's clothing industry has also been undergoing a change in its production pattern. An increasing share of output is made up of outerwear as opposed to the early and mid-1960s, when production was heavily concentrated on underwear. At the same time, there has been steady progress in upgrading the quality of clothes, a shift to ready-to-wear articles, and much greater production of permanent press articles. The technology needed for permanent press ovens and many other innovations has been obtained in some cases from US firms through licensing agreements. A good share of the clothing output is exported, but the industry has had trouble increasing its overseas sales in the past year or so.

### Trade Trends

10. Japanese textile exports increased fairly rapidly during the 1966-70 period – showing average gains of nearly 9% annually despite restrictions on access to foreign markets (see Table 2). As early as the

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Table 2  
Japanese Textile Exports

	Million US \$					
	1965	1966	1967	1968	1969	1970
Textile materials	154.5	151.1	138.6	154.6	173.6	200.5
Yarn and thread	183.6	231.9	207.4	306.7	396.7	425.8
Fabrics	798.8	869.8	858.0	952.7	1,059.9	1,127.6
Of which:						
Woolen	86.8	76.4	85.3	104.4	93.9	75.5
Synthetic	185.6	271.9	312.9	393.7	517.6	625.0
Cotton	302.6	285.7	248.1	283.3	221.3	187.6
Rayon	159.8	155.6	134.0	125.9	112.9	108.4
Knitted	23.3	42.3	46.6	61.8	86.7	124.4
Non-clothing products	108.1	115.8	115.9	134.0	133.1	139.3
Clothing products	270.0	316.2	312.4	357.5	411.6	413.6
Total	<u>1,515.0</u>	<u>1,684.8</u>	<u>1,632.3</u>	<u>1,905.5</u>	<u>2,174.9</u>	<u>2,306.8</u>
Textile machinery	<u>81.9</u>	<u>100.0</u>	<u>106.3</u>	<u>118.6</u>	<u>147.8</u>	<u>196.4</u>
Overall total	1,596.9	1,784.8	1,738.6	2,024.1	2,322.7	2,503.2

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mid-1950s, for example, Tokyo agreed to impose voluntary export controls on cotton textile sales to the United States. These were later subsumed under the 1962 Long-Term Cotton Textile Agreement, which limited most Japanese cotton textile exports not only to the United States but also to European Community (EC) countries and the United Kingdom. In recent years, moreover, textile exports – including man-made textiles – to EC members have been limited further by a variety of methods, including quantitative restrictions and in some cases bilateral agreements.

11. The United States is by far the most important single overseas market for Japanese textiles, absorbing \$534 million worth of yarns, fabrics, and made-up goods in 1970 (see Table 3 and Figure 3). Last year the United States accounted for 23% of total Japanese textile exports, although between 1965 and 1970, sales to the US market grew more slowly – at about 7.5% annually – than total textile exports. Japan is still by far the largest overseas supplier to the United States; in 1970 it accounted for approximately one-fourth of total US imports of manufactured textile products. 3/

12. Japan is basically a seller of apparel and other made-up goods to the US market 4/. Last year these exports were worth \$267 million, or one-half of total Japanese textile sales to the United States. Since 1965, sales of apparel have increased in value by 12% annually, although the increase was achieved in part by the steady upgrading of the quality of apparel exports and by the increase of synthetic blend items, which now make up more than half of apparel sales to the United States. The improved product quality is reflected in the increase in value of clothing sales to the United States last year in spite of a drop in volume.

13. After finished goods, fabrics are the largest Japanese textile export to the United States. Exports of synthetic fabrics have increased very rapidly – from \$25 million in 1965 to \$82 million in 1970 – and Japan now accounts for almost three-fourths of US imports. Another rapidly increasing item is knit fabrics (mostly of synthetic fiber). Knit exports to the US market rose from \$1 million in 1965 to \$29 million last year. Exports of other fabrics – mainly cotton and wool – have generally

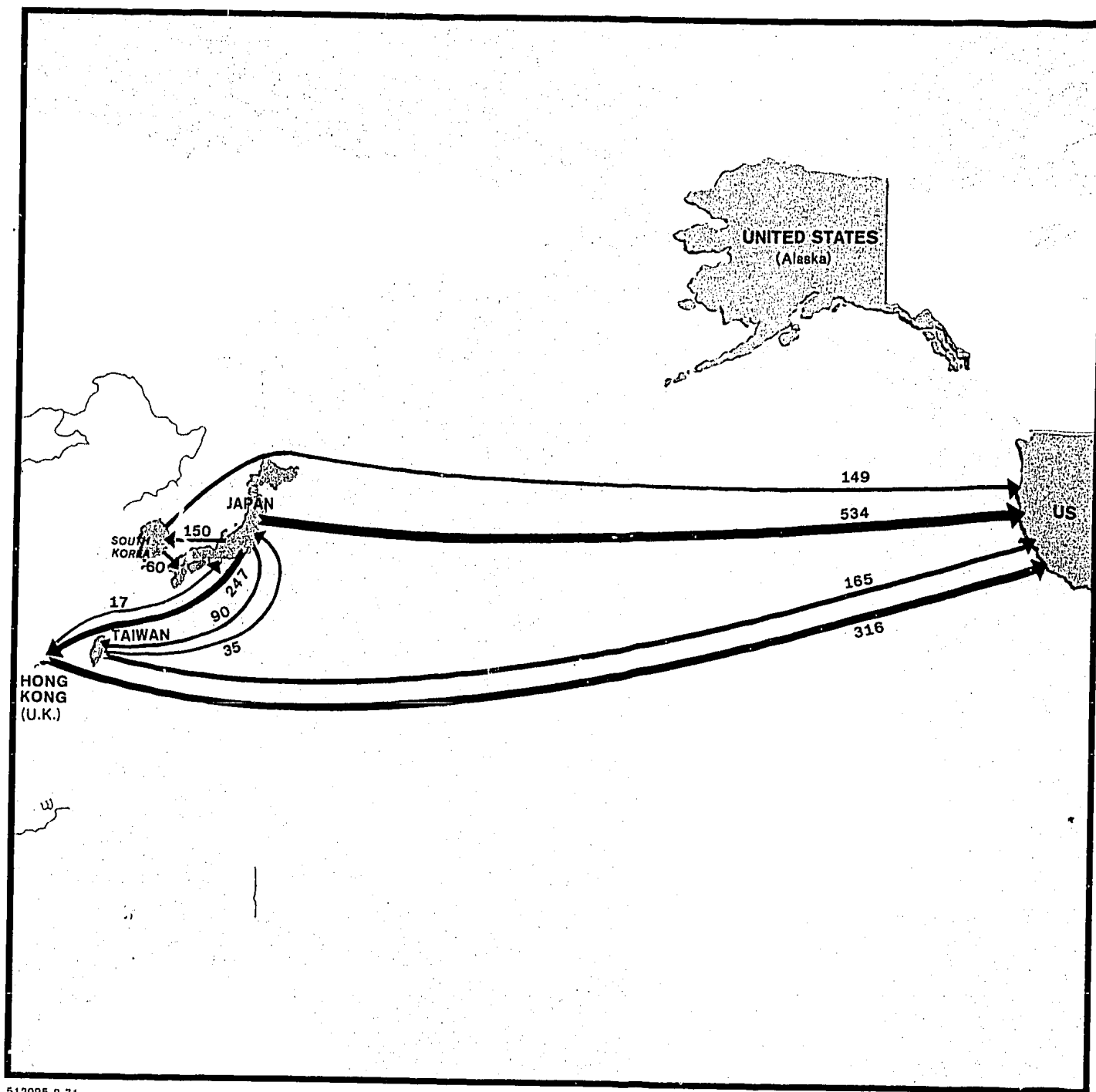
*3. For the purposes of this memorandum, manufactured textile exports exclude natural fiber raw materials – silk, cotton, and wool.*

*4. For the purposes of this memorandum, non-clothing textile products include: tulle, lace, and embroidery (SITC category 654), special textile fabrics (SITC category 655) and made-up articles of textile materials (SITC category 656.9). For clothing, Japanese trade statistics include clothing accessories of leather (SITC category 841.3) and headgear (SITC category 841.5). These items are excluded in all trade data in this memorandum.*

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**EAST ASIA: Textile Exports to Selected Countries, 1970** (MILLION US \$)

Figure 3



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\*Includes manufactured fibers, yarns, fabrics, and finished goods.

Table 3  
Japanese Textile Exports to the United States

	Million US \$					
	1965	1966	1967	1968	1969	1970
Textile materials	41.4	27.7	13.8	15.4	14.4	13.4
Yarns and threads	13.0	22.6	14.1	24.7	20.1	33.7
Fabrics	162.4	167.6	158.6	200.9	209.7	220.8
Of which:						
Woolen	57.2	46.9	56.7	75.7	59.2	43.1
Cotton	36.3	41.7	37.2	42.1	51.0	40.9
Synthetic	24.6	33.3	27.0	40.9	55.6	81.5
Rayon	16.0	18.6	18.7	20.5	21.6	20.0
Knitted	1.1	2.5	2.2	5.3	8.7	29.3
Non-clothing products	21.2	25.1	22.8	30.1	30.8	29.7
Clothing products	131.7	156.1	140.4	174.6	231.2	236.9
Total	369.7	399.1	349.7	445.7	506.2	534.5

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stagnated during the past five years. In the case of cotton textiles, shipments are controlled by the 1962 Long-Term Agreement, but this is not the main problem.

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The other major textile export category is yarns, but these make up only about 6% of total sales to the United States. Their value has increased sharply in recent years, however, from \$13 million in 1965 to \$34 million in 1970. Again, most of the increase reflected higher sales of synthetics.

14. The fastest growing market for Japanese textile products is Southeast Asia. Sales to the area grew slowly during the first half of the 1960s, when Japan was concentrating on the US market; but since 1965, exports to Southeast Asia have been growing by 18% annually (see Table 4). Last year these sales amounted to \$757 million, or one-third of the total. The great bulk of exports to the region consist of synthetic fibers, yarns, and fabrics, and accounts for more than half of total Japanese shipments of these items. In addition to textile products, the region has become an important market for Japanese textile machinery and dyestuffs. Japan exports more than one-third of its textile machinery output, and last year Southeast Asian countries bought more than 60% of Japan's machinery exports of \$196 million (see Table 5). Most of the \$35 million in dyestuff exports also went to Southeast Asian countries.

Table 4

## Japanese Textile Exports to Southeast Asia

	Million US \$	
	1965	1970
Textile materials	36.5	83.5
Yarns and threads	67.7	209.6
Fabrics	194.2	413.9
Of which:		
Cotton	63.3	43.6
Woolen	6.9	14.6
Synthetic	60.7	296.5
Rayon	33.8	22.5
Knitted	13.6	33.3
Non-clothing products	20.5	37.7
Clothing products	10.8	12.7
Total	329.7	757.4

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Table 5  
Japanese Textile-Related Exports to Southeast Asia

	Million US \$			
	1965		1970	
	<u>Textile Products</u>	<u>Textile Machinery</u>	<u>Textile Products</u>	<u>Textile Machinery</u>
Total to World	1,515.0	81.9	2,306.8	196.4
Total to Southeast Asia	329.7	32.0	757.4	119.9
Hong Kong	99.3	5.3	246.6	10.5
Taiwan	24.0	7.1	90.1	27.6
South Korea	36.1	6.6	150.3	37.2
Thailand	33.1	6.6	45.2	24.0
South Vietnam	19.5	1.3	20.5	1.9
Philippines	33.3	2.9	49.9	3.5
Indonesia	43.9	1.4	23.1	11.3
Malaysia a/	40.5	0.8	9.7	0.4
Singapore	--	--	117.0	3.5

a. Including exports to Singapore in 1965.

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15. The rapid increase in exports to the area is largely tied to the booming textile industries in Hong Kong, Taiwan, and South Korea. Japan supplies more than 90% of the manufactured textile materials imported by Taiwan and South Korea and about 50% of Hong Kong's imports. Japan's ability to sell increasing quantities of textile materials to these three countries is directly related to their rapidly growing exports of textile manufactures to the United States and other countries. Japanese sales to the three rose by 206% between 1965 and 1970, while the overseas textile sales of these countries to the United States rose by 256%.

16. Exports to Southeast Asia no doubt would have increased more slowly had Japan not moved into the area with substantial direct investment in plant and equipment. The Japanese have greatly increased their involvement in Southeast Asian textile industries and, with a total direct investment of about \$50 million, now have part ownership in more than 100 textile firms throughout the area. More importantly the Japanese have been able to exercise some control over many Southeast Asian textile firms through production contracts and by handling the export marketing of their products. Since the mid-1960s, Japanese investment has shifted from plants producing finished goods to large synthetic fiber and fabric plants. To some extent, at least, these newer operations compete with Japan's domestic industry for foreign markets, but at the same time they are buyers of Japanese textile machinery, fabric, yarns, and synthetic fibers. Japanese-controlled plants abroad now account for about 14% of US textile imports.

17. Foreign textile markets other than the United States and Southeast Asia accounted for about 44% of Japan's sales abroad in 1970, but with a few exceptions sales to these other countries have grown very slowly. Only textile exports to Canada, Australia, and the USSR have grown rapidly - reaching at least \$80 million each in 1970. In most of the less developed world (excluding Southeast Asia), the growth of sales has slowed as these nations have developed their own textile industries behind high import barriers. In Africa, for example, Japanese textile sales have actually declined in the past five years.

18. The EC restrictions have been highly effective in keeping Japanese textile sales small. In 1970 the EC accounted for less than \$100 million, or 3%, of total Japanese textile exports. The great bulk of these consisted of synthetic fibers; clothing exports totaled less than \$25 million. Japanese textile sales to the EC increased only about 3% annually during the past five years, and all the increase was due to rising West German imports, since sales to the other five dropped. The EC countries are now considering liberalizing trade with Japan, but restrictions on textiles nonetheless may not be relaxed appreciably. EC countries - especially Italy and France -

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are anxious to protect their own textile industries, which employ about 12% of their manufacturing labor force, and over the past several years a complex system of restrictive agreements governing textiles has been negotiated with Tokyo. It is doubtful that liberalization measures would be taken that would weaken these significantly.

19. About three-quarters of Japan's textile imports of about \$1.2 billion in 1970 were basic commodities, mainly cotton and wool (see Table 6). Yarns and fabrics accounted for 16%, while finished textile products, including clothing, constituted only 9% of total textile imports. In addition to these items the Japanese import some dyestuffs and small amounts of chemicals used directly by the textile industry. Textile machinery imports amount to some \$100 million annually.

20. Japan's natural fiber manufacturers depend almost entirely on imports for their raw material requirements. Imports of raw cotton last year were valued at \$471 million, about 17% of which came from the United States, making Japan the largest overseas market for US cotton. Overall, Japanese imports of raw cotton, however, declined slightly over the past decade in line with the fall in domestic cotton yarn production. Requirements for raw wool are also met entirely by imports, which have increased in volume but are falling in value as world prices decline. Last year, wool imports were worth \$364 million and came primarily from Australia and New Zealand. For both cotton and wool, Japan is by far the largest single import market. Once the world's largest silk exporter, Japan is now the leading importer of raw silk. Most of its silk imports come from South Korea.

21. In contrast to the situation regarding natural fibers, which must be imported, virtually all synthetic fiber requirements are met by domestic production. Among the man-made fibers, only rayon requires substantial amounts of direct raw material imports, mainly rayon pulp. These imports have tended to decline in recent years, however, in line with the fall in rayon production. Japan's large and advanced petrochemical industry provides virtually all the chemical intermediates needed in producing synthetic fibers. Indeed, production of almost all major raw materials for synthetic fibers - such as polypropylene, acrylonitrile, and cyclohexane - has been increasing much faster than synthetic fiber output.

22. Most of the increase in textile imports since 1965 consists of processed and finished items. Imports of yarn and fabric - mainly woolen and cotton - jumped nearly fourfold between 1965 and 1970 and were valued at \$190 million last year. Imports of finished products grew even faster, reaching \$113 million in 1970. The most dramatic gain was in clothing imports, which went from only \$6 million in 1965 to \$86 million

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Table 6  
Japanese Textile Imports

	Million US \$					
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Textile materials	807.2	885.4	958.0	917.8	885.4	918.8
Yarn and thread	5.5	9.3	19.4	25.5	26.0	42.1
Fabrics	34.2	38.4	65.8	87.0	106.1	148.1
Non-clothing products	6.8	6.7	12.4	15.9	21.8	26.3
Clothing products	6.5	8.6	14.5	22.7	38.1	86.5
<i>Total</i>	<i>860.2</i>	<i>948.4</i>	<i>970.1</i>	<i>1,068.9</i>	<i>1,077.4</i>	<i>1,221.8</i>

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last year. Some 80% of clothing imports come from Hong Kong, South Korea, and Taiwan. These countries also supply most of Japan's yarn and fabric.

23. By and large, Japanese imports of manufactured textile products are low-value items, mostly intermediate products. One-third of Japan's cotton fabric imports in 1970, for example, consisted of grey, undyed goods. A large share of apparel imports from East Asia, moreover, consists of items such as pockets, collars, shoulder pads, and dress shields used in manufacturing finished clothes. South Korea is the major East Asian supplier of such items, which constitute one-third of its textile exports to Japan.

### Problems And Prospects

#### International Competitive Situation

24. Although the Japanese textile industry has done fairly well, it faces many of the same problems as textile industries in other developed countries. Wages are increasing rapidly as more and more workers are attracted to higher paying jobs elsewhere, and the industry is having trouble recruiting new workers. Foreign competition, both at home and abroad, is intensifying; in several areas, Japan has already lost its competitive edge to other East Asian countries. Beyond this, the Japanese face increasingly restricted foreign markets. Exports to the EC countries are already tightly restricted, and voluntary export controls on sales to the United States limit sales to this major market. Other countries, including Australia, Canada, and South Africa, meanwhile are also pressing for export controls.

25. Outside of North America the Japanese already have one of the highest wage rates in the textile industry, and these rates are increasing more rapidly than in most countries. Because of a growing labor shortage, wage rates in the industry have been increasing by about 15% annually since 1965 (see Table 7) - faster than in any other Japanese industry. In 1969, wages averaged about 90 cents an hour. Although well below the US hourly rate of \$3.19 in 1969, Japanese wages were already higher than those in France and Italy and three to eight times higher than in Hong Kong, South Korea, and Taiwan. The gap almost certainly widened last year, when Japanese textile wages jumped by nearly 20%.

26. Major Japanese textile firms have prospered in recent years despite rapidly rising labor costs. Most of these large firms have made good progress with modernization programs, concentrating on synthetics. The capital-intensive synthetic fiber sector as a result scored gains in labor productivity of some 21% annually since 1965 (see Table 8), a rate higher than the wage increase. Improvements in productivity have enabled Japan

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Table 7  
Japan: Textile Wage Index a/

	1965 = 100					
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Total textile industry	100	109.7	122.6	141.9	167.8	198.8
Synthetic fiber	100	109.1	138.0	160.3	179.7	N.A.
Spinning	100	107.7	120.4	142.1	164.3	N.A.
Textile fabric	100	101.1	122.0	138.9	163.7	N.A.
Dyeing and finishing	100	112.5	126.6	145.8	169.0	N.A.
Others	100	107.6	111.0	135.5	160.5	N.A.

*a. Excluding bonus payments.*

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Table 8

## Japan: Index of Labor Productivity in Textiles

	1965 = 100				
	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
Total textile industry	100.0	109.6	122.0	131.4	144.9
Synthetic fiber	100.0	121.3	156.8	183.2	216.5
Spinning	100.0	109.9	117.0	124.6	131.3
Weaving	100.0	100.6	111.1	117.1	126.4
Dyeing and finishing	100.0	112.0	121.0	126.1	136.2
Other	100.0	116.1	119.9	121.1	133.0

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to maintain a competitive edge in synthetics. Its unit export prices for synthetic fibers and fabrics are, for example, still about 25% below those of the EC countries.

27. Profits of these large firms were generally up during the latter 1960s, and in recent years many firms have been recording before-tax profits equal to more than 30% of capital investment. Although the large synthetic fiber producers registered a slight drop in profits last year – the first in five years – because of declining prices, their position remains strong. Like many Japanese industries, textile firms operate with large amounts of borrowed funds. Having a high debt-equity ratio, they are extremely sensitive to even a slight slump in sales. To help avoid this, many are diversifying their operations while reorganizing through mergers and other regroupings with an eye toward limiting price competition.

28. It is the numerous small-scale Japanese firms which have been bearing the brunt of the textile industry's problems. Wage rates among natural fiber and fabric producers and garment makers are increasing at least twice as fast as labor productivity. Cotton and other natural fiber industries for many years have faced increasing competition from foreign producers – mainly in less developed countries. In the last year or so clothing producers have been adversely affected because other East Asian producers now can in many instances undersell them by 20%-30%. The growth rate of Japanese clothing exports has slowed, and during the past year and a half there has been an increase in clothing imports into Japan.

29. Small-scale producers are being helped, however, by Japanese import restrictions, which can be expected to keep foreign competition within reasonable bounds. Although increasing rapidly, clothing imports still make up only 4% of total domestic sales, and past experience suggests that controls will be strengthened should imports become a serious threat to the domestic industry. Few finished textile goods were included in Tokyo's recent tariff cuts for less developed countries, for example. A second form of aid to small producers is a financial assistance program aimed at helping the industry to modernize itself. In addition to that program, over \$250 million is being made available to the industry, including \$30 million to purchase surplus textile machinery, \$10 million to assist it to meet interest payments, and \$170 million for long-term, low-interest loans from government-affiliated banks financing mainly small businesses. In addition, total guarantees on loans by commercial banks to textile firms will be raised from \$36 million to \$92 million. The program over the next few years will undoubtedly accelerate modernization of textile plants and equipment and slow down the erosion of the industry's competitive international position. But it is unlikely to restore Japan's previous position or even halt the decline entirely.

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**CONFIDENTIAL**Impact of "Voluntary" Export Controls

30. More than 90% of the value of Japanese textile sales to the United States are covered by the recently initiated "voluntary" export controls. 5/ The restraint program covers four major textile categories - cotton, wool, man-made fabrics, and finished goods made of those materials. Textile raw materials and yarns are excluded. The restraint program limits the increase in exports for each of the four major groups for the year beginning July 1971 to 5% of the actual volume of exports to the United States during Japan's fiscal year April 1970 - March 1971. In the second and third years, the permitted increase rises to 6% annually, based on the volume achieved in the previous year. In addition, the Japanese imposed ceilings on their exports of several specific textile products.

31. Export controls on cotton and wool fabrics will have little or no impact, since shipments to the United States have been dropping. Between 1965 and 1970 the import volumes of those items fell by 37% and 23%, respectively, and the downward trend continued into 1971. Total US imports of cotton and wool fabrics are stagnating, and the Japanese are having a hard time competing with less developed countries.

32. In the case of finished goods, growth in the volume of Japanese sales to the United States has recently slowed considerably. US imports of cotton items from Japan stagnated during the past half decade and actually fell last year. Imports of woolen finished goods, which make up less than 2% of the total, grew by 8.5% a year. Imports of finished goods made from man-made fibers, accounting for over half the total, were increasing by more than 27% annually, but last year the import volume of these items rose by a mere 1%. Moreover, the slowdown in synthetics does not seem to be a temporary aberration. Despite Japanese efforts to flood the US market before any export restraints were imposed, the import volume of man-made finished goods during the first five months of 1971 was running less than 4% above the same period for 1970. As in the case of cottons, the trouble stems from other East Asian producers. US imports from Hong Kong, Taiwan, and South Korea of clothing made from

*5. Reports on whether all or part of cotton textile exports to the United States will be covered by the voluntary restraint program are unclear. Tokyo apparently wants to include all cottons and to allow restrictions under existing bilateral agreements on cottons to lapse at the end of this year. For the purposes of this memorandum, all cottons are assumed to be included in the restraint program whether or not they are covered by existing bilateral agreements. With or without cottons now being governed by bilateral agreements, however, the analysis remains essentially unchanged.*

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man-made fibers jumped 32% in volume in 1970 and rose by a whopping 67% during the first five months of 1971.

33. From the Japanese point of view the only major problem in adopting export controls involves exports of man-made fabrics, which have been increasing sharply. Since 1965, US imports from Japan have risen by more than 12% annually, but the pace accelerated to 29% last year. A 68% increase in volume was recorded during the first five months of 1971. If the Japanese adhered to the scheduled limits in export growth rate for each category, they would face a significant slowdown in textile exports to the United States, but Tokyo presumably anticipates shifting unused portions of quotas to other categories. Given the likely decline or stagnation in shipments of cotton and woolen fabrics, their entire quota and then some could be reallocated to the man-made fabrics category. There might also be a substantial portion of the finished goods quota available for shifting as well. With these quota shifts among categories, there would still be room for exports of man-made fabric to continue increasing at a rapid pace.

34. Self-imposed export ceilings on specific textile products could pose a more serious threat to Japanese sales than the broad category controls. But even here, Tokyo apparently has protected itself by setting very high ceilings. Among the specific items with ceiling limits are knit fabrics, which accounted for most of the growth in synthetic fabric exports to the United States last year. Here, the ceiling reportedly allows a 60% increase in exports during the first year of controls. Moreover, the Japanese have increased their knit fabric exports at a very fast pace since around November 1970 in order to boost their export volume during the base year ending in March 1971. In July 1971, the first month of voluntary controls, the volume ran about 100% above the July 1970 level. Because of the rapid increase, shipments were halted in mid-August, but will be resumed in September at a rate sufficient to boost exports during all of 1971 to almost double the 1970 level. Most other high-growth items with specific ceilings, such as polyester woven fabrics and certain clothing items, also registered substantial increases by the first six months of 1971.

35. In sum, the Japanese have so far protected themselves from any serious adverse effects from the controls. But even without these restraints, the overall volume of textile exports to the United States over the next few years probably would not increase by much more than 5%-6% annually and might have increased even less because of the growing competition from the less developed countries. In value terms, Japanese textile exports should do better, partly because of price increases but mainly because of the continuing trend toward higher quality goods. Thus the growth in the value of Japanese textile exports to the United States probably will remain at around the 6% rate achieved in 1970. Overall Japanese export growth would

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be more seriously hurt if other East Asian textile producers put restraints on their sales to the US market, since their demand for Japanese material would slow as well.

### Difficulties Over the Longer Term

36. Over the longer term the Japanese textile industry will face increasingly serious problems with or without export controls. The continuous upgrading of textile products among the low wage, less developed countries will be the basic source of trouble. In general the Japanese have already lost much of their international competitive advantage in all items but synthetic fibers, yarns, and fabrics plus some clothing items. But even this advantage will gradually erode as the less developed countries acquire the technology and capital to develop their own synthetic industries, and the trend will be accelerated by a yen revaluation. Moreover, as the initial boom in synthetics slackens, there will be greater competition among producers. But the Japanese can be expected to remain aggressive competitors who will be depending more on the development of new products and on their efficient international marketing apparatus. At home they will still have a large market protected by import barriers against excessive foreign competition.

37. In general economic terms, the diminishing importance of the textile industry will have beneficial results. If the Japanese are going to maintain a high growth rate, they must continue the process of structural upgrading of their economy to more capital-intensive sectors. This will involve a shift of workers between sectors, since the employment situation is already tight and the number of persons entering the work force in the next decade will be relatively small. A reduction in the 1 million Japanese textile workers will permit a shift of labor to the high-growth sectors.

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